

Message Text

SECRET

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ACTION SS-25

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P 270155Z AUG 76

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC PRIORITY 7034

S E C R E T SECTION 1 OF 2 MEXICO 11016

EXDIS

EO 11652: GDS

TAGS: MX SNAR ENRG LOS CASC PFOR

SUBJECT: SECOND CHAPTER RE BREAKFAST CONVERSATION WITH MEXICO'S
PRESIDENT-ELECT

REF MEXICO 10914

1. UNFORTUNATELY, I WAS UNABLE TO FINISH THE ACCOUNT OF MY
BREAKFAST CONVERSATION WITH PRESIDENT-ELECT LOPEZ PORTILLO AS
I ACCOMPANIED SECRETARY OF AGRICULTURE BUTZ ON OUT-OF-TOWN
TRIP. THE FOLLOWING SHOULD BE READ AS A CONTINUATION OF ABOVE
REFTEL.

2. ENERGY/PETROLEUM: (A) LOPEZ PORTILLO RAISED THIS SUBECT
HIMSELF OBSERVING THAT IT WAS SIMPLISTIC TO SEE MEXICO'S NEWLY
DISCOVERED OIL RESERVES AS THE EASY SOLUTION TO THE COUNTRY'S
ECONOMIC AND BALANCE OF PAYMENTS PROBLEMS. FIRST OF ALL,
INCREDIBLE AS IT MAY SEEM, THIS AREA WAS SHROUDED IN BUREAU-
CRATIC SECRECY WHICH EVEN HE HIMSELF, AS PRESIDENT-ELECT, HAD
NOT BEEN ABLE TO FULLY PENETRATE. THIS SEEMED IN PART TO
DERIVE FROM FACT THAT PEMEX OFFICIALS WERE ACCUSTOMED TO
OPERATING IN AN ERA OF RELATIVE SCARCITY AND WERE ALWAYS
MISTRUSTFUL THAT THE CENTRAL GOVERNMENT WOULD DEplete
THE UP-TO-NOW LIMITED OIL RESERVES CARELESSLY OR FOR
TRANSITORY POLITICAL REASONS. THIS ATMOSPHERE OF VEILED
MISTRUST BETWEEN PEMEX AND THE CENTRAL GOVERNMENT STILL
EXISTED DESPITE THE FACT THAT WE WERE NO LONGER SPEAKING

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OF INDIVIDUAL WELLS BUT OF WHOLE FIELDS. MOREOVER, A

CERTAIN AMOUNT OF CONFUSION WHETHER PURPOSEFUL OF OTHERWISE EXISTED IN THE VARIOUS ESTIMATES OF AMOUNTS OF PETROLEUM AVAILABLE FOR EXPORT IN FUTURE YEARS AND POSSIBLE EFFECT ON BALANCE OF PAYMENTS. FOR INSTANCE, IT WAS ALMOST IMPOSSIBLE TO GET PEMEX FUNCTIONARIES TO FOCUS ON WHETHER THEY WERE ESTIMATING BASED ON "PRIMARY EXPLOITATION" OR "SECONDARY EXPLOITATION" FIGURES. HE SAID HE USED THESE TERMS, THE FIRST IN REGARD TO WELLS FLOWING NATURALLY AND THE SECOND TO WELLS WHICH COULD BE EXPLOITED BEYOND THEIR HISTORICAL CAPACITY THROUGH THE USE OF RELATIVELY NEW TECHNOLOGY SUCH AS INJECTING WELLS WITH COMPRESSED GAS, STEAM OR SOME OTHER SUBSTANCE WHICH COULD GET CONSIDERABLE AMOUNTS OF PETROLEUM OUT OF WELLS WHICH, IN THE OLD DAYS, WOULD HAVE BEEN CONSIDERED EXHAUSTED.

(B) WHILE NATURALLY IT WAS PREFERABLE FROM THE MEXICAN POINT OF VIEW TO EXPORT REFINED RATHER THAN CRUDE PETROLEUM, HE RECOGNIZED THAT AN INCREASE IN REFINING CAPACITY WOULD TAKE TIME AS WELL AS RESOURCES. SINCE MEXICO NEEDED IMMEDIATE ACCESS TO FOREIGN EXCHANGE THERE SHOULD BE NO IDEOLOGICAL BLOCK TO THE CONCEPT OF EXPORTING, AT LEAST ON A SHORT-TERM BASIS, UNREFINED CRUDE.

(C) EVEN AS REGARDS EXPORTS OF CRUDE, HOWEVER, MEXICO WAS BLOCKED BY LIMITATIONS OF PRODUCTION, PIPELINE AND STORAGE CAPACITY WHICH WERE ALMOST IMPOSSIBLE TO OVERCOME DUE TO LACK OF RESOURCES AND THE HIGH COST OF EXPLOITATION. I SUGGESTED THAT THIS PERHAPS REPRESENTED AN AREA WHERE THE U.S. MIGHT BE ABLE TO HELP EITHER THROUGH THE PUBLIC OR PRIVATE SECTOR POINTING OUT THAT U.S. COMMERCIAL BANKS SEEMED DISPOSED TO INCREASE THEIR EXPOSURES IN MEXICO AND THAT SOME HAD TOLD ME THEY HAD CONSIDERED PEMEX EXTREMELY CREDIT-WORTHY. LOPEZ PORTILLO REPLIED THAT UNFORTUNATELY, LOANS THOUGH READILY AVAILABLE COULD NOT IN THEMSELVES SOLVE THE PROBLEM OF PETROLEUM PRODUCTION. IN FACT, THE INPUT OF RESOURCES TO PETROLEUM, WHETHER FROM LOANS OR OTHERWISE, WERE ALREADY "DEFORMING" THE "PESO STRUCTURE". OUTSIDE LOANS FOR PETROLEUM EXPLOITATION HAD TO BE CONVERTED INTO PESOS AND THIS IMMEDIATELY INCREASED INFLATIONARY PRESSURES AND ALSO CONTRIBUTED TO THE FLIGHT OF CAPITAL AS SUCH PESOS, ONCE IN PRIVATE HANDS, WERE PROMPTLY CONVERTED INTO DOLLARS

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AND SURREPTITIOUSLY EXPORTED TO THE U.S. OR SWITZERLAND. (D) I SEIZED THIS OPPORTUNITY TO TELL HIM THAT HE WOULD FIND THAT PETROLEUM/ENERGY WAS ONE OF THE ITEMS WHICH WASHINGTON WOULD BE EAGER TO DISCUSS WITH HIM DURING HIS VISIT. I RECALLED PRESIDENT ECHEVERRIA'S BRIEFING OF PRESIDENT FORD ON THIS MATTER TWO YEARS AGO SAYING THAT AT THAT TIME WE WERE TOLD THAT MEXICO WAS PREPARED TO SELL ITS OIL TO ANY CUSTOMERS INCLUDING THE U.S. AT THE

GOING WORLD MARKET RATES AND WITHOUT SPECIFIC POLITICAL CONDITIONS.
SINCE THEN, ECHEVERRIA ON SEVERAL OCCASIONS HAD TOLD ME THAT THE MAIN REASON HE HAD NOT JOINED OPEC WAS BECAUSE OF THE POLITICAL MOTIVATION OF THAT ORGANIZATION AND HIS DESIRE NOT TO BE FORCED INTO AN OIL EMBARGO. LOPEZ PORTILLO SAID THAT ECHEVERRIA'S POSITION SEEMED A LOGICAL ONE TO HIM AND THAT HE WOULD BE PLEASED TO DISCUSS ENERGY MATTERS IN WASHINGTON TAKING IT FOR GRANTED THAT IT WOULD BE DONE ON THE BASIS OF MUTUAL RESPECT, IN VIEW OF THE SENSITIVITY OF THIS MATTER IN MEXICO.

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC PRIORITY 7035

S E C R E T SECTION 2 OF 2 MEXICO 11016

EXDIS

3. NARCOTICS. IN DIRXXRRL

D#THIS SUBJECT, JLP ASSURED

ME THAT IT WAS HIS INTENTION TO CONTINUE AND TO MAKE EVEN MORE VIGOROUS OUR JOINT EFFORTS AGAINST THE NARCOTICS TRAFFIC. HE WAS A CLOSE PERSONAL FRIEND OF ATTORNEY GENERAL OJEDA PAULLADA WHO HAD KEPT HIM INFORMED OF OUR COOPERATIVE EFFORTS IN THIS FIELD. IN HIS OPINION, THE BASIS HAD NOW BEEN SET FOR FUTURE EXPANSION OF OUR JOINT EFFORTS. THE NARCOTICS PROBLEM WAS BECOMING A MORE VIVID ONE TO THE MEXICANS THEMSELVES AND THERE WERE FREQUENT EXAMPLES OF PERSONS WHO HAD ENRICHED THEMSELVES

IN ONE WAY OR ANOTHER THROUGH THE NARCOTICS TRAFFIC NOW FINDING THAT THEIR OWN CHILDREN WERE AMONG THE VICTIMS.

IT WAS FUTILE TO BLAME THE IMPOVERISHED CAMPESINOS AND THE LITTLE PEOPLE WHO BECAME EMBROILED IN PRODUCTION AS

THE MONETARY GAINS FOR THE CAMPESINO WERE IRRESISTIBLE. BUT WE HAD NOW REACHED THE POINT WHERE WE SHOULD CONCENTRATE MORE ON THE BIG FISH BOTH IN MEXICO AND THE U.S. HE COULD NOT HELP BUT WONDER WHETHER THE U.S. SIDE WAS TOO TEMPTED TO RELY ON ACTION AGAINST THE PRODUCERS AS THE EASY WAY OUT WHEN COMPARED TO THE DIFFICULT BUT NECESSARY COROLLARY OF TAKING ACTION AGAINST THE BIG SHOT IMPORTERS AND DISTRIBUTORS IN THE U.S. IN REGARD TO MEXICO, THE CAMPESINO/NARCOTIC PROBLEM WAS INTIMATELY RELATED TO THE BROADER PROBLEM OF CHANGING THE CHARACTER OF MEXICAN AGRICULTURE (SEE PARA 6 REFTTEL). IT WAS NECESSARY

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ONE WAY OR ANOTHER TO FIND ALTERNATE SOURCES OF OCCUPATION FOR THOSE CAMPESINOS NOW ENGAGED IN CULTIVATING POPPIES AND MARIJUANA. THIS WAS A PARTICULARLY DIFFICULT TASK AS THE ARID MOUNTAIN REGIONS, WHERE THEY GROW THESE CROPS, DID EASILY LEND THEMSELVES TO ALTERNATIVE CROPS. THE NEED TO HANDLE THE SOCIO/ECONOMIC ASPECTS OF THE NARCOTICS PROBLEM WAS A COMPLICATED ONE AND SHOULD BE KEPT IN MIND BY BOTH SIDES. IN CLOSING THE PORTION OF THE CONVERSATION DEVOTED TO NARCOTICS, JLP STRESSED THAT IN THIS, AS IN OTHER FIELDS, MEXICO AND THE U.S. COULD WORK TOGETHER CLOSELY BUT ALWAYS ON THE BASIS OF MUTUAL RESPECT.

4. LAW OF THE SEA. I TOLD JLP OF OUR POSSIBLE INTEREST IN DISCUSSING THE LAW OF THE SEA. HE WAS NOT FULLY INFORMED ON THIS COMPLICATED MATTER BUT SEEMED TO HAVE AN OPEN MIND. I URGED THAT IDEOLOGICAL HANG UPS NOT BE PERMITTED TO PRECIPITATE A BREAKDOWN OF THESE COMPLICATED NEGOTIATIONS AS THIS WOULD PRODUCE EXPLOITATION OF THE SEABEDS ON A FIRST-COME FIRST-SERVED BASIS WHICH WOULD ACTUALLY BE DETRIMENTAL PRECISELY TO THOSE COUNTRIES WHICH WERE LESS PREPARED TECHNICALLY.

5. U.S. PRISONERS. I MENTIONED THAT THE PROBLEMS OF U.S. PRISONERS IN MEXICAN JAILS PRODUCE FRICTIONS BETWEEN US WHICH COULD ONLY INCREASE WITH TIME. IT WAS FOR THIS REASON THAT WE WERE SO INTERESTED IN THE EXCHANGE OF SANCTIONS PROPOSAL MADE BY FOREIGN MINISTER GARCIA ROBLES, DESPITE THE FACT THAT THERE WERE NUMEROUS JURIDICAL PROBLEMS INVOLVED. LOPEZ PORTILLO SAID THAT AS A LAWYER AND PROFESSOR OF LAW, HE COULD READILY SEE THE PROBLEMS INVOLVED; SIMILARLY, ON GIVING THE MATTER A SECOND THOUGHT HE COULD ALSO SEE THE POSSIBILITIES OF FINDING SOLUTIONS. HE SEEMED PREPARED TO BE SYMPATHETIC ON THIS MATTER.

6. COMMENT: ON THE WHOLE I FOUND THIS A PARTICULARLY REWARDING EXCHANGE OF VIEWS WITH THE PRESIDENT-ELECT SPEAKING IN A FRANK, SINCERE AND SOMETIMES MOVING MANNER.

HE WAS OBVIOUSLY EAGER TO HAVE SPECIFIC VISIT DATES FROM U.S. AS HE ALSO HAD OTHER OBLIGATIONS AND OTHER TRAVEL PLANS.

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7. JLP IS OBVIOUSLY DEEPLY CONCERNED ABOUT THE MEXICO WHICH HE WILL INHERIT AND SEES HIS VISIT TO THE U.S, WITH ITS PRELIMINARY CONVERSATIONS BOTH WITH THE HIGHEST U.S. GOVERNMENT OFFICIALS AS WELL AS WITH THE INTERNATIONAL FINANCIAL INSTITUTIONS AND THE U.S. PRIVATE SECTOR, AS VITAL IN HELPING HIM SOLVE SOME OF THE COUNTRY'S PROBLEMS. THIS CONVERSATION CONFIRMED OTHER REPORTS WE HAVE HAD AS TO THE IMPORTANCE HE ATTACHES TO U.S. BILATERAL RELATIONS AS CONTRASTED TO THE MULTILATERAL "THIRD WORLD EMPHASIS GIVEN BY ECHEVERRIA. IN FACT, WHEN I MENTIONED THAT ONE OF THE TOPICS WHICH MIGHT BE DISCUSSED WAS THE STATE OF RELATIONS BETWEEN THE U.S. AND MEXICO, INCLUDING TRADE AND ECONOMIC MATTERS AND OUR ROLES AND ATTITUDES IN GLOBAL AFFAIRS, HE SEEMED TO UNDERSTAND PRECISELY WHAT I WAS GETTING AT. HE AGREED THAT WHILE MEXICO MUST DEFEND ITS OWN INTERESTS AND OFTEN HAVE AN INDEPENDENT POSITION, IT WAS MUTUALLY UNREWARDING FOR MEXICO'S DELEGATIONS TO REPEATEDLY ASSUME A ROLE OF LEADERSHIP IN CONFRONTATION TACTICS WITH THE U.S, PARTICULARLY IN AREAS WHERE IMPORTANT MEXICAN INTERESTS ARE NOT INVOLVED.

8. I THINK IT IS INTERESTING TO NOTE THAT WITH THE EXCEPTION OF CONFRONTATION ON GLOBAL AFFAIRS, LAW OF THE SEA AND U.S. PRISONERS, ALL OF THE TOPICS COVERED IN THIS TWO-PART CABLE WERE RAISED IN ONE WAY OR ANOTHER BY JLP RATHER THAN AT MY INITIATIVE AND THEREFORE OBVIOUSLY REPRESENT MATTERS THAT HE HAS AN INTEREST IN DISCUSSING. SIMILARLY, HOWEVER, THERE SEEMED TO BE NO RELUCTANCE ON HIS PART TO DISCUSS THOSE ADDITIONAL MATTERS WHICH I RAISED.

JOVA

NOTE BY OCT: MEXICO 11016/2 #AS RECEIVED.
CORRECTION TO FOLLOW.

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